86-1784

JUN 30 1986

MEMORANDUM FOR: Director of Congressional Affairs

25X1 FROM: [redacted]
Acting Director of Personnel

SUBJECT: Data for Congressional Committees on the Negative Impact of the Tax Reform Bill

1. This memorandum is in response to a telephone call received by a member of my staff from David Addington, staff member of the House Permanent Select Committee for Intelligence (HPSCI). Mr. Addington's call suggested that now would be a good time to provide data to the Committee which would show the potential negative impact of the pending pension taxation provisions of the tax reform bill being considered by the Congress. Mr. Addington specifically asked us to share with HPSCI what might happen if the three-year recovery rule on taxing of Government annuities is eliminated. He stated that there appeared to be a possibility of having this provision in the new tax bill modified or struck in conference and that now would be the time for the Agency to make its case to the HPSCI.

2. As you are aware, Congressman Wolf had previously asked for similar information and some very general unclassified information was forward to him. The Senate Appropriations Committee also asked for similar information and some classified data was subsequently provided to them through the Comptroller's office.

3. In reviewing events of the past few months, we find that one of the most telling indications of the potential impact of taxation of Government pensions provisions or the tax reform bill has been the number of retirements that have taken place. As the likelihood of the bill's passage increased, we have seen a sharp rise in retirements over a comparable period in 1985. Since 1 April 1986, there have been 126 retirements compared with 66 during the same period last year. Thus far in

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June, we have had 51 retirements and another 35 employees have signed up to retire before the end of the month, giving us a projected total of 86. This compares with only 13 retirements during June 1985.

4. There are other indications that the number of retirees could grow even larger if the pension recovery rule is dropped. The volume of telephone calls concerning retirement matters (many of which were directly related to the impact of tax reform legislation) increased during April and May as compared to last year (2953 vs 2662). In addition, personal discussions with employees about their retirement benefits also rose (143 vs 100) during those two months. Finally, our Retirement Division has prepared about 25% more written estimates of retirement benefits than it did during the same period in 1985. The increased number of requests for written estimates is particularly noteworthy because it followed by a few weeks the distribution of an individualized statement of benefits to every employee that included an estimate of retirement benefits. This statement should have answered most employee questions about retirement benefits. However, concern was running so high over the possible tax changes in annuities that many employees began thinking seriously about retirement and sought additional information.

5. If a bill eliminating the three-year recovery rule passes, the earlier noted statistics are sure to increase. The attachment contains a table reflecting the number of Agency employees eligible to retire by 30 June 1986 as well as those eligible to retire by 31 December 1986. Clearly, if many of those eligible exercised this option, it would have a
25X1 significant impact on Agency operations. Some [redacted] employees
25X1 [redacted] of the Agency's on duty strength are eligible to retire by 30 June. The percentage jumps dramatically for members of
25X1 the Senior Intelligence Service, where [redacted] are
25X1 eligible. In the DO, this percentage rises to [redacted] of the officers at the SIS levels. In the critical mid-level
25X1 management group (GS-14's and GS-15), some [redacted] officers are
25X1 eligible to retire, [redacted] of the total of Agency employees at this grade level. In the DO, the percentage of GS-14s and
25X1 GS-15s eligible to retire rises [redacted] While we cannot predict exactly how many eligible employees will retire if the exclusion is dropped, employees are keenly aware of this tax issue and it is likely that a significant number would retire to avoid the change in pension taxation. If this occurred,

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their loss would seriously impact on the Agency's ability to carry out its mission and would tax our already strained recruitment mechanism to find new employees to fill resulting vacancies. More importantly, the potential loss of a large number of the Agency's most senior officers would create a void in experience that would take years to fill.

6. I trust that you will want to forward the above noted information to David Addington so he can share it with the Committee members. I would also suggest that the same information be shared with the SSCI staffers. If you believe that it is appropriate for us to discuss this matter with the HPSCI or SSCI staffers, please let me know.

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Attachment:
a/s

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